B5350-2A 3/6/84

The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, MARCH 19, 1984 VOLUME XXI, NUMBER 11

For Organized Labor . . .

Despite the recent uptick in the rate of inflation at the retail and wholesale levels, worries that another inflation spiral is at hand are still premature. While the cold weather has pushed up food prices and caused a surge in home heating costs, the important "underlying," or "core," rate of inflation has continued its more than two-year descent. After peaking at close to ten percent in 1981, this determinant of the long-term trend in price changes, measured by the annual rise in labor and capital costs per unit of output, is now below six percent—with further improvement likely.

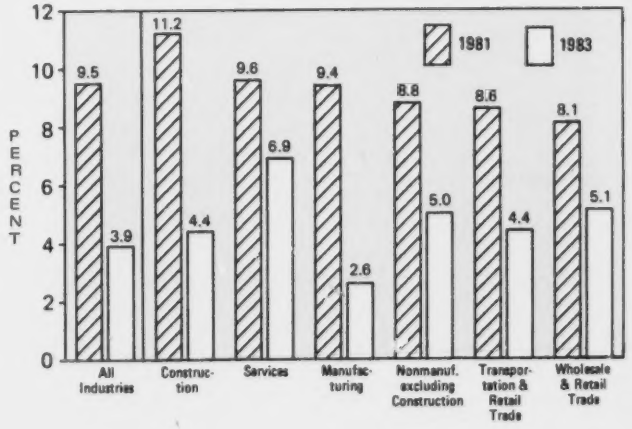
While lower capital costs contributed significantly to the drop in the core rate, the moderation in wage increases combined with rising productivity were primarily responsible. And keeping labor costs low is crucial to keeping inflation in check, since they represent two thirds of total business operating costs. In 1983, compensation per hour (which also includes employers' payments for social insurance and benefit plans) rose only 5.6 percent, compared with the previous year, posting the smallest annual rise since 1967. When productivity gains are factored in, labor costs per unit of output in many sectors of the economy were either flat compared with a year ago or actually declined.

One of the most important contributors to the moderation in wage increases has been a sharp reduction in pay gains received by organized labor. While settlements usually reflect overall economic conditions in general and the health and strength of individual companies and industries in particular, 1983's major collective bargaining contracts settled in private industry and government yielded the lowest average wage adjustments in the years that the Labor Department has been keeping track. This has occurred despite last year's stepped-up pace of business activity. It seems that worries over the continued high rate of unemployment, low capacity utilization, deregulation of many industries, plant obsolescence and the growing inroads by foreign producers have placed increased emphasis on the preservation of jobs at the expense of increased wages and benefits.

. . . It Could Be Another Year . . .

Last year, 25 percent of the three million workers who bargained agreed to wage freezes—and some even to pay cuts. Nearly half a million workers—mostly in the steel, transportation and construction industries took pay cuts averaging nearly seven percent in the first year of their contracts. While some will receive wage increases which will fully restore these reductions by the end of their contracts, the majority will continue to make less.

WAGE ADJUSTMENTS
IN MAJOR COLLECTIVE BARGAINING SETTLEMENTS
(SELECTED INDUSTRIES)



At nearly seven percent, wage gains in 1983 were the highest in service industries, which had escaped the recession relatively unscathed (see chart). On the other hand, the recession had more of an impact on the bargaining power of workers in the manufacturing and transportation sectors, forcing labor and management to trim labor costs substantially. Similarly, despite stepped-up homebuilding—which last year more than offset a drop in nonresidential construction—settlements in the construction industry called for the smallest average wage and compensation adjustments in more than 16 years. Last year's 4.4 percent pay hike was less than half of that negotiated in 1982 and considerably below the 11.2 percent received in 1981.

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. . . Of Small Wage Raises

But even with the recovery well underway, many workers still may not see their paychecks increase much this year. Unions are likely to continue to emphasize job security in upcoming contract negotiations, while wage and benefit improvements are likely to take second place. For despite the healthier economy, many companies are still encountering foreign competition, deregulation and competition from nonunion companies. What is more, most of the principal industries involved in negotiations this year are not fully recovered from the last recession.

Nevertheless, 1984 will be an important labor year, since collective bargaining will involve more than three million workers. It will be the third year in a row of heavy bargaining, breaking a 30-year pattern of two years of heavy negotiations followed by one year of light activity. One of the first large groups to negotiate a new contract this year was workers in the petroleum refining industry. Faced with uncertainties regarding the demand for petroleum products, plant closings, excess capacity, the drop in oil exploration and a more than ten percent decline in the industry's employment from its 1981 peak, these workers settled for a 1.5 percent rise in wages in the first year of contract and an increase in their employers' contribution for such benefits as medical insurance. By contrast, the last time they were at the bargaining table—only two years ago—they won pay raises of nine percent.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit	3/14/84		
U.S. Gov'ts and Agencies Owned Outright & RPs	157.784	+ .020	+13.720
Loans to Depository Inst.	.886	+ .393	– .004
Float	1.803	+ 1.344	– .035
Total Reserve Bank Credit	169.056	+ 1.971	+13.414
Treasury Deposits with Federal Reserve Banks	2.825	– .732	– .865
Currency in Circulation	168.526	+ 1.007	+13.765
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	116.645	– 1.325	+ 7.720
	3/14/84		
Member Bank Reserves:			
Total Reserves Held	36.312	+ .651	– 1.468
Excess (Deficiency)	.673	– .043	+ .262
Net Borrowed Reserves	.059	– .393	– .050

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M1 (3/5/84)	532.0	‡	‡
M2 (February '84)	2,221.9	+ 7.3	+ 8.2
M3 (February '84)	2,743.8	+ 8.2	+ 9.0
Domestic Nonfinancial Debt (4th Q'83)	5,219.0	+ 10.6	+ 10.8

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡Data unavailable due to revisions.

New York Money Market

Offering Rates 3/16/84	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	9.40%	9.55%	9.60%
* Federal Agencies	9.90	10.20	10.35
* Project Notes–Taxfree (46% Taxable Equivalent)	9.35	9.72	10.93
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	10.02	10.27	10.85

‡Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	9.75%	Apr.	9.80%
15- 29 days	9.80	May	9.80
30- 59 days	9.80	Jun.	9.80
60- 89 days	9.75	Jul.	9.93
90-179 days	9.75	Aug.	9.93
180-239 days	9.75	Sep.	9.93
240-270 days	9.75		

‡Industrial Paper–Prime		†Federal Funds Effective Rate	9.80%
30- 89 days	9.80%		
90-120 days	9.80		

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'83	$ 3,437	$ 3,362	$ 3,110
Gross National Product (1972 Dollars)*	4th Q'83	$ 1,572	$ 1,553	$ 1,481
Percent Change, Annual Rate	4th Q'83	4.9	7.6	– 1.3
Change in Consumer Prices (new series)*	Jan '84	7.2%	2.4%	3.6%
Change in Producer Prices*	Feb '84n	4.8%	7.2%	1.2%
Civilian Employment (Thousands of Persons)†	Feb '84	103,892	103,190	99,172
Unemployment as % of Civilian Labor Force†	Feb '84	7.8%	8.0%	10.4%
Personal Income*	Jan '84	$ 2,889	$ 2,858	$ 2,853
Leading Indicators Composite Index (1967=100)†	Jan '84	164.7	162.9	145.2
Industrial Production Index (1967=100) †	Feb '84n	159.1	158.0r	138.1
Net Change in Consumer Installment Credit †	Jan '84n	$ 4.34	$ 6.61	$ 2.73
U.S. Merchandise Trade Balance †	Jan '84	–$ 9.47	–$ 6.74	–$ 3.84
Plant and Equipment Expenditures*	2nd Q'84n	$335.40(a)	$332.66(a)	$293.46
Private Housing Starts (Thousands of Units)*	Feb '84n	2,197	1,976 r	1,706
New Construction Expenditures*	Jan '84	$ 281.8	$ 277.8	$ 247.9
Total Business Inventories †	Jan '84n	$ 522.7	$ 520.7r	$ 507.6
Total Business Sales †	Jan '84n	$ 402.0	$ 396.7r	$ 345.3

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

Between March and June of this year, contracts for half of all construction workers under major agreements are scheduled to expire. But once again, labor will be negotiating from a position of weakness. Relatively high mortgage interest rates are likely to keep a lid on residential construction, while business spending on nonresidential structures is not expected to expand much. The unemployment rate for construction workers currently exceeds 15 percent. Organized labor's problems have been further exacerbated by stepped-up competition from nonunion contractors.

Later this year, contracts for about 450,000 auto workers are scheduled to expire. This time the auto industry is in a much different position than the last time the same companies negotiated. Then (early 1982), sales were falling precipitously and unemployment in the industry as a whole stood near 20 percent. Now these companies are reporting record profits and year-to-date auto sales are at a five-year high. Management stresses that this turnaround in earnings is probably more the result of massive cost cutting and increased manufacturing efficiency than higher sales levels. In fact, they say that at today's sales rates, the companies would be losing money if they still operated at 1978 cost structures. Still, the industry is in better shape than most, and thus may be a good test of whether labor will be able to restore the givebacks yielded during the recession or whether job security concerns will remain paramount. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (2/29/84)	141,544	+ 669	–17,660
New York City (3/7/84)	29,476	+ 761	–10,345
Commercial Paper (3/7/84)	192,914	+ 2,058	+25,930

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/29/84)	226,733	+ 3,043	NA*
New York City (3/7/84)	59,540	– 4	NA*

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/29/84)	585,454	+ 4,180	NA*
New York City (3/7/84)	130,823	– 2,034	NA*

*Year ago data not available due to definitional changes.

Financial Markets

	Friday 3/16/84	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	9.69%	– .01	+ .84
180-Day Bills†	10.12	+ .02	+ 1.12
Longest Bills†	10.38	– .02	+ 1.12
Recent Issues:			
10⅞s 2/28/86	11.12	– .03	
11 ¼s 12/31/87	11.42	– .33	
11¾s 11/15/93	12.18	– .07	
12s 8/15/13	12.31	– .04	
Municipals:			
Bond Buyer–20 Bond Index* (3/15/84)	9.98%	+ .04	+ .79
Blue List Total ($ Million)	$1,409	+ $ 73	+ $ 145
30-Day Visible Supply ($ Million)	$2,575	– $ 82	– $ 955
Total	$3,984	– $ 9	– $ 810
Corporates:			
Moody's Aa Composite (3/15/84)	13.23%	+ .09	+ .88
30-Day Visible Supply ($ Million)	$3,495	+$ 120	+ $ 298
Stocks:			
Dow-Jones Averages:			
Industrials	1,184.36	+ 44.60	+ 66.62
Transportation	518.21	+ 19.75	+ 11.94
Utilities	127.60	+ 1.68	+ 1.35
65 Stocks	463.48	+ 15.93	+ 19.67
Standard and Poor's 500 Stocks	159.27	+ 4.92	+ 9.37
N.Y.S.E. Composite Index	91.73	+ 2.79	+ 5.36
N.Y.S.E. Avg. Daily Vol. for Week (000's)	92,670	+13,166	+ 21,960

* 46% Taxable equivalent 18.48%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 3/16/84	Week Ago
Overnight	9.88%	9.63%
1 month	10.06	10.00
3 month	10.31	10.31
6 month	10.63	10.63
1 year	11.00	11.06
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	12.00%	12.00%
Long Term (7 to 15 yrs.)	12.20	12.20

FOREIGN EXCHANGE SPOT RATES

New York Opening (3/16/84)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.01874	53.36
Canada	.7874	1.2700
Denmark	.1051	9.5150
France	.1244	8.0375
Germany	.3837	2.6065
Italy	.0006174	1619.80
Japan	.004442	225.13
Mexico	.005814	172.00
Netherlands	.3398	2.9425
Switzerland	.4650	2.1505
U.K.	1.4510	.6892

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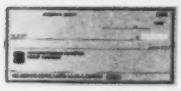

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